

# INSTRUCTIONS FOR THE PREPARATION OF ALABAMA DEPARTMENT OF REVENUE Corporation Income Tax Return

**2001**

## General Information For ALL Corporations

### Corporations Subject To Income Tax:

Sections 40-18-2 and 40-18-31, **Code of Alabama 1975**, impose an income tax on every corporation doing business in Alabama or deriving income from sources within Alabama including income from property located in Alabama and on every corporation licensed or qualified to transact business in Alabama except for those corporations specifically exempted by §40-18-32.

### Filing Requirements:

Every corporation, joint stock company, or association subject to income tax under Title 40, **Code of Alabama 1975**, is required by §40-18-39 to file a return with the Alabama Department of Revenue for each taxable period, stating gross income and allowable deductions and credits. Penalties will be added for failure to timely file, failure to timely pay, or fraudulent filing.

### Consolidated Filing:

Effective for taxable years beginning after December 31, 1998, an Alabama affiliated group filing or required to file a federal consolidated income tax return may elect to file an Alabama consolidated return for the same taxable year. An Alabama consolidated return means an Alabama corporate income tax return filed by or on behalf of the members of the members of an Alabama affiliated group. This election, made by filing Form 20C-CRE (Election to File Consolidated Corporate Income Tax Return), Form 20C-AS (Affiliations Schedule), Form 20C (Alabama Corporate Income Tax Return) and the annual filing fee, must be submitted to the department on or before the due date, with extensions, for the first taxable year for which the election is made in order to be valid. The election is binding and irrevocable for a period of 96 months, beginning with the first month of the first taxable year for which the election is made and ending with the conclusion of the taxable year in which the 96th consecutive month expires. (Affiliated groups with non-corporate members, S Corporations, insurance companies subject to the Alabama Premiums Tax and financial institutions which are subject to the Alabama Financial Institutions Excise Tax are ineligible.)

The Alabama affiliated group shall be treated as a single corporation for Alabama purposes. All transactions between and among members shall be eliminated in computing taxable income. Caution: see §40-18-39(c)(3) and Rule 810-3-39-.06 Mechanics of Consolidated Filing.

### Which Form To Use:

**FORM 20C.** Corporations must file Form 20C, Corporation Income Tax Return, unless (1) a valid election is in effect to be an S corporation under 26 U.S.C. §1362, (2) a valid election is in effect to be a qualified subchapter S subsidiary under 26 U.S.C. §1361(b)(3) and all of its stock is owned by an Alabama S corporation, or (3) the corporation has exempt status under §40-18-25(e), 40-18-25(f), or 40-18-32 and the corporation has no unrelated business taxable income.

**FORM 20S.** Corporations which have in effect an election to be (1) an S corporation under 26 U.S.C. §1362, or (2) a qualified subchapter S subsidiary under 26 U.S.C. §1361(b)(3) and is wholly owned by an Alabama S corporation, must file Form 20S. Completed Alabama K-1's must be attached. A signed copy of Schedule NRA for each nonresident shareholder (if any) must be attached to Form 20S when applicable (see Schedule NRA requirements).

**FORM 20SC. Nonresident Composite Payment Return and Extension.** This form is used to report and pay tax on the S corporation income on behalf of some or all of the nonresident shareholders.

Tax forms and other information are available on the Internet from the Department's Web site at [www.ador.state.al.us](http://www.ador.state.al.us).

### Estimate/Extension/Informational Requirements:

**FORM 20-CD. Corporation Declaration of Estimated Tax.** A corporation which will have an Alabama income tax liability in excess of \$5,000 must pay estimated tax. The first payment is due by the fifteenth day of the fourth month of the taxable year. The second, third, and fourth payments are due by the fifteenth day of the sixth, ninth, and twelfth months, respectively.

All corporations which filed a Form 20-CD the previous year and also those corporations that had a total tax liability of more than \$5,000 before credits will automatically receive a preprinted coupon booklet containing Form 20-CD and Form 20-E. These forms are designed for optical scanning. To request a preprinted booklet, call the Corporate Tax Section at (334) 242-1200. When payments are made by EFT, the Forms 20CD and 20E must still be remitted.

Section 40-18-80.1 provides for penalties for underestimation except under the following conditions: (1) taxpayer makes timely payment of at least as great as the amount computed to be due on its return for the preceding taxable year (for the first taxable year beginning after December 31, 2000, 130 percent of the tax shown on the return for the preceding taxable year); or (2) the taxpayer's declaration is greater than 100 percent of the tax computed to be due on its current return. Large corporations are required to pay 100 percent of the current year tax.

Visit our Web site for additional information on current tax law changes.

**NOTE: Estimated payments made during 2001 for tax periods beginning on or after 1-1-2001 should be adjusted to reflect the new tax rate of 6-1/2%.**

**FORM 20-E. Payment Voucher and Extension Request.** Form 20-E may be used to request an extension of up to six (6) months for filing a return. It may also be used as a payment voucher. If estimated payments do not equal or exceed the amount of tax due for the period, the balance of the corporation's tax liability is due on or before the original due date of the return. Form 20-E should be submitted with the payment if the return is to be filed under extension.

Tax due and not paid by the due date will be subject to penalties provided in §40-2A-11.

**SCHEDULE K-1 (Form 20S). Shareholder's Statement of Income and Deductions.** A corporation filing as an Alabama S corporation must complete four copies of Alabama Schedule K-1 for each shareholder who held any stock interest in the Alabama S corporation during the taxable year. On this schedule are reported the details of the shareholder's pro rata share of the corporation's separately stated and nonseparately stated income and deductions. Two copies of this form shall be distributed to the shareholder, one copy shall be attached to Form 20S filed with the Alabama Department of Revenue, and one copy shall be maintained with the corporation's books and records.

**SCHEDULE NRA (Form 20S). Agreement of Nonresident Shareholder.** Each nonresident shareholder who held any stock interest in the electing corporation during any part of the tax year of the corporation must execute a consent agreement (if one hasn't been filed since the 1989 tax year) to report his or her share of the Alabama S corporation's Alabama income to this State and to pay any tax due thereon. A completed copy of Schedule NRA must be attached to the Form 20S.

**CIVIL PENALTIES.** Section 40-2A-11 provides additional penalties for (1) failure to timely file, (2) failure to timely pay, (3) underpayment due to negligence, and (4) underpayment due to fraud. These penalties may be assessed

in addition to and without regard to the exceptions for underestimation penalties if the taxpayer does not attempt to comply with §40-18-82.

**ELECTRONIC FUNDS TRANSFER.** Section 41-1-20 requires the use of Electronic Funds Transfer (EFT) for all single tax payments of \$25,000 or more. Taxpayers must register to use EFT when contacted by the EFT Unit, and substantial penalties can be assessed for noncompliance. Call the Alabama Department of Revenue EFT Hotline at (334) 242-1819 or 1-800-322-4106 for further information.

## General Instructions

### How To File:

For this return to be considered complete and properly filed, a copy of the appropriate federal return (Form 1120, 1120A, 1120F, 990T, etc.) must be attached. Failure to attach the complete federal return with the necessary supporting schedules (such as Schedule D and Form 4797) may result in the imposition of delinquent penalties. It is not necessary to include itemized depreciation schedules with the return if the information is maintained with the company records and is available upon request.

Filing a **CONSOLIDATED RETURN** is not permitted unless filing entities are an Alabama real estate investment trust and its qualified real estate investment trust subsidiary or have elected to file a consolidated corporate income tax return under the provisions of §40-18-39. If this corporation is a member of an affiliated group which files a consolidated federal return additional schedules will be required. See "Other Pertinent Information" on page 4 of the return for these filing requirements.

### Period Covered:

File the 2001 return for calendar year 2001 and for fiscal years or short-years that begin in 2001. Fill in the tax year space at the top of the form for a fiscal year or short-year.

### Signature:

The return must be signed by an authorized officer of the corporation. If the property or business is being operated by a receiver trustee in bankruptcy, or an assignee, such person shall sign for the corporation. Enter the date signed and the title of the person whose signature is affixed. If the return is prepared by anyone other than an employee of the taxpayer, enter the signature and identification information of the preparer.

### When To File:

**ORIGINAL DUE DATE.** The return for calendar year 2001 is due on or before March 15, 2002. For fiscal year or short-year taxpayers, the return is due on or before the 15th day of the 3rd month following the close of the tax period.

**EXTENSION.** An automatic extension of time to file the return up to a maximum of six (6) months will be granted if:

(1) a copy of the Federal Form 7004 is attached to the return and the return is filed within the six-month period, or

(2) Form 20-E is filed on or before the due date of the return regardless of whether the corporation files a Federal Form 7004.

Returns or payments bearing a U.S. Postal Service cancellation no later than midnight of the due date (with extensions) will be considered timely filed.

### Where To File/Payment of Tax:

The total amount of the corporation's income tax liability for the period is due on or before the unextended due date of the return. If the return is to be filed under extension, Form 20-E should be used to pay any balance of tax due after all estimated payments and credits have been allowed.

Make checks payable to:

**Alabama Department of Revenue – Corporate Tax.**

Write the corporation's federal employer identification number, the income tax form number (Form 20C), and the tax year on the check.

Tax due and not paid on or before the due date will be subject to a failure to timely pay penalty of 1% per month, up to 25%, and will accrue interest at

the rate provided in §40-1-44.

Mail the return and payments to:

**Alabama Department of Revenue  
Individual and Corporate Tax Division  
Corporate Tax Section  
P. O. Box 327430  
Montgomery, AL 36132-7430  
Telephone (334) 242-1200**

## Specific Instructions

At the top, left-hand corner of page 1 check the applicable box if filing an initial, final, or amended return.

At the top, right-hand corner of page 1 check the appropriate box indicating a calendar-year, fiscal-year, or short-year return. Fill in the blanks indicating the beginning and ending dates of the tax period if the return is for a fiscal year or a short year.

If this corporation is included in a consolidated federal income tax return, check the appropriate block, and enter the name and federal employer identification number of the common parent corporation.

Check the appropriate filing status. Filing status 3, Percentage of Sales, is available as an option only to taxpayers whose only activities within Alabama consist of sales and do not include owning or renting real estate or tangible personal property and whose gross Alabama sales is not in excess of \$100,000. Use Schedule C-2 to compute tax. Filing status 4, Separate (Direct) Accounting, should only be used by taxpayers that have received prior permission from the Alabama Commissioner of Revenue. Parent corporation must have filed Form 20C-CRE, "Election To File Consolidated Corporate Income Tax Return," electing to file a consolidated corporate income tax return for Alabama. Check Yes or No box on Form 20C.

For tax years beginning on or after January 1, 1990, any corporation filing as a S corporation with the Internal Revenue Service under 26 U.S.C. § 1362 must file as a S corporation for Alabama (Form 20S). To ensure that the taxpayers receive the proper forms for next year's filing, it is necessary to answer the question on page 1 in the upper right hand corner which asks whether this corporation will file as a S corporation with the IRS next year.

In the top, center block of page 1 enter the corporation's federal business code number, its federal employer identification number (FEIN), and its name and mailing address (with complete zip code). Below the address enter the state of incorporation, date of incorporation, and the date the corporation qualified to do business in Alabama.

**BE SURE TO FILL OUT ALL APPLICABLE LINES ON PAGE 1** even if detailed schedules are attached. Failure to properly complete the return may result in delinquency penalties.

**LINE 1.** Enter the amount of this corporation's federal taxable income.

**LINE 2.** Federal Net operating loss.

**LINE 3.** Enter the net amount of reconciliation adjustments from line 27, Schedule A, on page 2. Enclose the amount on line 3 in parentheses if net reconciliation deductions exceed additions.

**LINE 5.** Enter the amount shown in Column E, Schedule C, page 3. Enclose net nonbusiness income in parentheses.

Net nonbusiness income is a negative amount in computing total apportionable income on line 6. Net nonbusiness expense or loss is a positive amount in computing total apportionable income on line 6.

**LINE 6.** Enter the sum of lines 4 and 5. Special attention should be paid to whether the amounts on lines 4 and 5 are positive or negative. Negative amounts must be netted against positive amounts.

**LINE 9.** Enter the amount shown on Column F, Schedule C, page 3. Enclose net nonbusiness expense or (loss) in parentheses.

Net nonbusiness income allocated to Alabama is a positive amount in computing Alabama income before federal income tax deduction. Net non-business expense or (loss) allocated to Alabama is a negative amount in computing Alabama income before federal income tax deduction.

**LINE 13.** Enter the amount of net operating loss (not to exceed taxable

income) carried forward from taxable years beginning after December 31, 1984. Complete Schedule B showing the amount of net operating loss incurred for each tax period beginning 1/1/85 or later and the amount of such loss absorbed in each subsequent period.

A net operating loss is the excess of allowable deductions over the gross income of a corporation during a taxable year. A net operating loss is applied to the first taxable year to which it may be carried. A loss incurred in a taxable year beginning after December 31, 1984 may be carried forward 15 consecutive years.

**NOTE: The net operating loss deduction has been suspended for all tax periods beginning in 2001. Only take this deduction if this is a final return for this corporation. Corporation must have dissolved or liquidated during 2001.**

**Corporations may not carry back a net operating loss to offset Alabama income in prior years.**

**LINE 15a.** Alabama income tax rate has increased to 6.5% for year beginning after 12/31/2000.

**LINE 15b.** A consolidated filing fee is due from an Alabama affiliated group which elects to file an Alabama consolidated return.

**LINE 16c.** Enter the amount of tax paid with Form 20-E.

**LINE 16d.** This line is only to be used if a taxpayer is filing an AMENDED RETURN. The amount shown should be any payments made with the original return and/or any payments made because of adjustments to the return by the Alabama Department of Revenue.

**LINE 16e. Credits/Exemptions.** Refer to Instructions for Schedule F.

**LINE 16f.** The increase in tax due to the LIFO reserve recapture is payable in 4 equal installments. The first installment is due no later than the due date (without extension) for filing the return for the last taxable year before the corporation became an S corporation. The three succeeding installments are due no later than the due date (without extension) for the succeeding three years.

To calculate the LIFO tax deferral, multiply by 6.5% the amount on page 2, Schedule A, line 5, that represents the LIFO reserve recapture. Then multiply this total by 75%. Enter the result on line 16e not to exceed line 15 on page 1. Multistate taxpayers should calculate the LIFO tax deferral by multiplying the amount on page 2, Schedule A, line 5, by the apportioned percentage on page 1, line 7. Then multiply this total by 6.5%. Enter on line 16e, 75% of the total LIFO tax calculated above not to exceed line 15 on page 1.

**LINE 18.** Enter any overpayment and identify on line 18(a), and/or 18(b), and/or 18(c) the amount you wish to be credited to next year's estimated tax and/or contributed to the Penny Trust Fund and/or refunded. Once the election is made to apply an overpayment to the next year's estimated tax and/or contribute to the Penny Trust Fund, the election may not be changed. The amount of overpayment applied to the estimated tax for the following year will not be refunded until after the following year's tax return has been filed. Contributions to the Penny Trust Fund are designated for the promotion of public schools and public health.

**LINE 19.** If this return is not filed on or before the due date (with extensions), enter a delinquent penalty of 10% of the tax due or \$50, whichever is greater.

Amounts not paid by the due date will be subject to a nonpayment penalty of 1% per month for each month or fraction thereof that the tax remains unpaid, up to 25%, as provided in §40-2A-11.

**LINE 20.** Enter the amount of interest due on the balance of tax due on line 17 computed from the due date (without extensions) of this return to the date paid. The Alabama interest rate is the same as provided in IRC Section 6621.

**LINE 22.** Enter the amount of remittance. Attach remittance made payable to: Alabama Department of Revenue – Individual and Corporate Tax Division. Be sure to include the taxpayer's federal employer identification number, the form number (Form 20C), and the tax year on your remittance.

**LINE 22a.** Payments of \$25,000 or more must be made by Electronic Funds Transfer (EFT). For additional EFT information, refer to the

Estimate/Extension/Informational Requirements section of these instructions.

## Instructions For Schedule A

The Alabama income tax law is similar, but not identical, to the federal income tax law. It is necessary to make certain adjustments to reconcile federal taxable income before federal net operating loss to total taxable income from all locations computed in accordance with Alabama income tax law and rules before adjustments for federal income tax and net operating loss carry-forward. Use Schedule A to itemize these reconciliation adjustments.

**NOTE: For tax years beginning on or after January 1, 1990, Alabama taxable income must be computed in accordance with the same method of accounting that the taxpayer employs for federal income tax purposes. Further, Acts 99-664 & 2000-702 revised Alabama's definition of taxable income. The Acts are effective for any year beginning on or after January 1, 2001.**

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MULTISTATE CORPORATIONS SHOULD NOT USE SCHEDULE A TO MAKE ADJUSTMENTS FOR NONAPPORTIONABLE (NONBUSINESS) ITEMS. Adjustments for these items are to be made on Schedule C.

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### Additions To Federal Taxable Income:

**LINE 1.** Enter the amounts of state and/or local taxes imposed on net income or measured by net income which have been deducted on the federal return.

**LINE 2.** Enter the amount of interest earned which is exempt from federal taxation. This includes state and local municipal bonds.

**LINE 3.** Enter the amount of dividend income earned from corporations of which the taxpayer owns less than 20% of the stock (by vote and value) to the extent the dividends are deducted in computing taxable income for federal income tax purposes.

**LINE 4.** Enter any Federal deduction taken on pollution control items which was previously deducted on an Alabama income tax return (*for tax years beginning prior to 1/1/2001 only*).

**LINE 5.** Section 40-18-161 requires a C corporation which expects to become a S corporation in the next taxable year and has goods inventoried under the LIFO method to include in the gross income, of the corporation, for the last year as a C corporation the LIFO recapture amount. Appropriate adjustments shall be made to the basis of the inventory. See §40-18-161.

For tax years beginning prior to January 1, 2001, a C corporation which converts to an Alabama S corporation shall pay tax equal to 5% of its LIFO recapture amount. For tax years beginning after December 31, 2000, a C corporation which converts to an Alabama S corporation shall pay tax equal to 6-1/2% of its LIFO recapture amount.

**LINE 6.** Real estate investment trusts (REIT) enter the net income from foreclosure property from Federal Form 1190-REIT, Part II, line 5.

**LINE 7, 8, & 9.** List any transitional items previously deducted on prior Alabama income tax returns, i.e. contributions, capital gains carryover, etc. (*for years beginning prior to 1/1/2001 only*).

### Deductions From Federal Taxable Income:

**LINE 11.** Enter the amount of refunds of state and/or local taxes on net income which have been refunded and included in federal income (only if not netted in line 1 above).

**LINE 12.** Enter the amount of interest income earned on obligations of the U.S. government. Do not include interest on federal tax refunds; or interest income from FNMA, GNMA, Federal Home Loan Mortgage Corporation, or World Bank, since instruments issued by these organizations are not direct obligations of the U.S. government.

**LINE 13.** Enter the amount of interest income earned on obligations of the State of Alabama or any of its subdivisions or instrumentalities to extent included in the Federal return.

**LINE 14.** Enter the amount of interest income earned on obligations issued prior to 12/31/1994 by Alabama or any of its subdivisions or instrumen-

talities pursuant to §40-9B-7, to the extent included in the Federal return. The interest income relates to obligations issued by State of Alabama Public Authorities or Public Industrial Authorities, for "Private Use Property" only.

**LINE 15.** Enter the amount of aid or assistance provided to the Alabama State Industrial Development Authority pursuant to §41-10-44.8(d) in order to induce an approved company to undertake a major business project within this state.

**LINE 16.** Enter expenses not deductible on the federal income tax return due to an election to claim a federal tax credit, i.e. jobs credit, etc.

**LINE 17.** Enter dividends described in 26 U.S.C. §78 received from corporations in which taxpayer owns more than 20% of stock by vote or value.

**LINE 18.** Enter dividends, including those described in 26 U.S.C. §951, from non-U.S. corporations to extent dividend income would be deductible under 26 U.S.C. §243 if received from a U.S. corporation. Taxpayer must own more than 20% of these payer corporations by vote or value.

**LINE 19.** Enter dividends from foreign sales corporations as defined in 26 U.S.C. §922.

**LINE 20.** Enter interest portion of rent paid under lease agreements entered into prior to 12/31/1994 relating to obligations of this state and its subdivisions/instrumentalities to the extent such obligations were issued solely to pay the cost of assets described pursuant to §40-9B-7(c) through (e).

**LINE 21.** Enter depletion on oil and gas wells only to extent depletion allowed by §40-18-16(b) exceeds federal. Section 40-18-16(b) limits depletion to 12%.

**LINE 22.** Real estate investment trusts enter the allowable dividend paid deduction. The deduction for dividends paid, as defined in 26 U.S.C. §561, shall be allowed but shall be computed without regard to that portion of the deduction which is attributable to the amount equal to the net income from foreclosure property as defined in 26 U.S.C. §857.

**LINES 23, 24, & 25.** List any transitional items previously accounted for on a prior Alabama income tax return, i.e. contributions, capital gains, etc. (*for years beginning prior to 1/1/2001 only*). To the extent included in federal income tax return only.

**LINE 26.** Enter the sum of lines 11 through 25.

**LINE 27.** Subtract line 26 from line 10 and enter the result on line 27. If line 26 is larger than line 10, enclose the amount on line 27 in parentheses. Carry the amount on line 27 to page 1, line 3.

## Instructions For Schedule B

Act 2001-1088 suspended the net operating loss deduction for all tax years beginning during 2001. Only corporations dissolved or liquidated during 2001 and filing a final 2001 return are allowed this deduction.

All corporations must complete this schedule to support their net operating loss carryover.

For tax years beginning after December 31, 1983, and before January 1, 1985, the loss may be carried forward for a maximum of 5 years. For tax years Beginning after December 31, 1984, the loss may be carried forward for a maximum of 15 years. There is no provision allowing a net operating loss carryback.

Any amount claimed as a federal net operating loss deduction must be added back to federal taxable income on Alabama form 20C page 1, line 2.

The Alabama net operating loss deduction is limited to net operating losses incurred by a corporation which did business in Alabama and filed Corporation Net Income Tax Returns in prior taxable years.

## Instructions For Schedule C

Enter on Schedule C all items of nonbusiness income, nonbusiness loss, and nonbusiness expense. These items are excluded from apportionable income and are allocated either to Alabama or to another state. See Rule 810-27-1-4-.01 for a discussion of the classification of income and expense into business and nonbusiness categories and the assignment of nonbusiness items to specific jurisdictions.

Beside the line number in Schedule C, enter the item description. In

Column A enter the total amount of gross income or loss to be excluded from apportionable income. In Column B enter the amount of gross income or loss allocable to Alabama.

Enter total nonbusiness expense in Column C and any allocable to Alabama in Column D. Nonbusiness expense may exceed nonbusiness income and, in fact, may be present when there is no nonbusiness income. Expenses which are not directly identifiable as business or nonbusiness must be prorated. See Rule 810-27-1-4-.01(d). The method for prorating interest expense is to multiply total interest expense deducted on the federal return by a fraction, the numerator of which is the average amount invested in nonbusiness assets at cost and the denominator of which is the average amount invested in total assets at cost. Investments originally acquired by means of stock for stock swaps may be eliminated from both the numerator and the denominator of the nonbusiness interest expense proration factor.

Subtract Column C from Column A, and enter the remainder in Column E. Subtract Column D from Column B, and enter the remainder in Column F.

Add the amounts in Columns E and F, and enter the totals on line 2. Carry the total of Column E to page 1, line 5. Carry the total of Column F to page 1, line 9.

## Instructions For Schedule D-1

The corporation's business activity in Alabama is represented by the apportionment percentage. Except for special cases provided for in Rule 810-27-1-4-.18, the apportionment factor consists of the average of three other factors: property, payroll, and sales. See Rule 810-27-1-4-.09 through Rule 810-27-1-4-.18 for detailed instructions regarding the items to be included in the numerator and the denominator of each of these factors.

### Property Factor:

In the appropriate columns, enter the amounts (at cost, unless stated otherwise) of property available for use in the production of business (apportionable) income.

**LINE 1.** Inventories.

**LINE 2.** Land.

**LINE 3.** Furniture and fixtures.

**LINE 4.** Machinery and equipment.

**LINE 5.** Buildings and leasehold improvements.

**LINE 6.** Property financed through industrial development boards or by industrial revenue bonds issued by municipalities. **All Industrial Development Board property utilized by the taxpayer will be included at its original cost basis.**

**LINE 7.** Government Property. **All government property (whether local, state, or federal), when such property is made available for use by the taxpayer, will be reported at its current fair market value.**

**LINE 8.** Any other real or tangible personal property used in production of business income.

**LINE 9.** Less Construction in progress (if included in the amounts on lines 1 through 8).

**LINE 10.** Enter in each column the totals of lines 1 through 9.

**LINE 11.** Enter in the appropriate column the average (beginning of year plus end of year values divided by 2) value of property in Alabama and Everywhere. See Rule 810-27-1-4-.12 for rules regarding computations other than beginning and end of year values.

**LINE 12.** In the Beginning of Year columns, enter the amount of expense for the rental of real or tangible personal property used in the production of business income in Alabama and Everywhere. Annualize for short-period returns. Multiply the annual rent expense by 8, and enter the result in the End of Year column. This is the capitalized rental value.

**LINE 13a.** Add the amounts on lines 11 and 12 in the End of Year column for Alabama.

**LINE 13b.** Add the amounts on lines 11 and 12 in the End of Year column for Everywhere.

**LINE 14.** Divide the amount on line 13a by the amount on line 13b, and enter the percentage on line 14. This is the ALABAMA PROPERTY FACTOR.

## Payroll Factor:

**LINE 15a.** Enter the amount of wages or other compensation paid to employees for the production of business income in Alabama.

**LINE 15b.** Enter the amount of wages or other compensation paid to employees for the production of business income Everywhere. (Include officers' salaries.)

**LINE 15c.** Divide the amount on line 15a by the amount on line 15b, and enter the percentage on line 15c. This is the ALABAMA PAYROLL FACTOR.

## Sales Factor:

**LINE 16.** Enter gross receipts from Alabama destination sales except sales to the U.S. government. This includes total gross receipts from sales of tangible property shipped to Alabama from locations both within and without Alabama.

**LINE 17.** Enter the amount of sales shipped from an Alabama origin to any state or foreign country where this corporation is not taxable. Also enter total sales to the U.S. government shipped from Alabama.

**LINE 18.** In the Alabama column, enter the total of lines 16 and 17. In the Everywhere column enter total sales for everywhere. If this amount does not correspond with line 1 of Federal Form 1120, attach an explanation and reconciliation.

**LINE 19.** Enter in the appropriate columns the gross business dividends, if any. (Note that any dividends entered here will be included in apportionable income on page 1.)

**LINE 20.** Enter in the appropriate columns the gross business interest income.

**LINE 21.** Enter in the appropriate columns the gross business income from rents.

**LINE 22.** Enter in the appropriate columns the gross business income from royalties.

**LINE 23.** Enter in the appropriate columns the gross receipts from the sale or disposition of assets used in the business. See Rule 810-27-1-4-.15 for exclusion of amounts which would distort the factor.

**LINE 24.** Enter in the appropriate columns the amounts of other business gross receipts, and identify the nature of such receipts and their location in the federal return.

**LINE 25a.** Total the Alabama column for lines 18 through 24.

**LINE 25b.** Total the Everywhere columns for lines 18 through 24.

**LINE 25c.** Divide the amount on line 25a by the amount on line 25b, and enter the percentage on line 25c. This is the ALABAMA SALES FACTOR.

**LINE 26.** Add lines 14, 15c, and 25c. Divide by 3. This is the ALABAMA APPORTIONMENT PERCENTAGE. Enter here and on line 7, page 1. (If any factor is not utilized in the production of income, it shall be eliminated and the denominator reduced accordingly.)

## Instructions for Schedule D-2

This schedule should be used only by taxpayers whose only activity in Alabama consists of sales and does not include owning or renting real estate or tangible personal property, and whose gross Alabama sales does not exceed \$100,000.00.

The tax liability is based on a percentage, .25%, of Alabama gross sales. See §40-18-23 for further information.

**LINE 1.** Enter gross receipts from Alabama destination sales except sales to the U.S. Government. This includes total gross receipts from sales of tangible property shipped to Alabama from locations within and without Alabama.

**LINE 2.** Enter the amount of sales shipped from an Alabama origin to any state or foreign country where this corporation is not taxable. Also enter total sales to the U.S. Government shipped from Alabama.

**LINE 3.** In the Alabama column, enter the total of lines 1 and 2. In the Everywhere column enter total sales for everywhere. If this amount does not correspond with line 1 of Federal Form 1120, attach an explanation and reconciliation.

## Instructions for Schedule E

This schedule should be used to compute the amount of the corporation's federal income tax deduction allowable for/apportioned to Alabama and to offset that deduction with the amount of refund, if any, received or accrued in that year according to the taxpayer's method of accounting.

If this corporation is a member of an affiliated group which files a consolidated federal return, check the appropriate block to indicate the election made under IRC §1552. Attach a copy of the workpaper showing the computations made in allocating the consolidated tax liability to the separate corporations in the affiliated group.

**LINE 1.** Accrual-basis taxpayers should enter the amount of the corporation's net federal income tax liability (or share of the consolidated liability if included in a consolidated return) – see Rule 810-3-35-.01. The federal liability should correspond to Federal Form 1120, Schedule J, except for the Environmental Tax (deducted on the 1120).

Cash-basis taxpayers filing separate federal returns should enter on line 1 the amount of payment forwarded to the Internal Revenue Service (or share of the payment forwarded to the Internal Revenue Service if included in a consolidated return).

Real estate investment trusts **should not** include the tax imposed by IRC §857(b)(6) on prohibited transaction as part of the federal tax deduction.

**LINE 2.** Enter the amount of Alabama income from line 8, page 1.

**LINE 3.** Enter the amount of total net income adjusted to Alabama basis from line 4, page 1.

**LINE 4.** If the amounts on line 2 and line 3 are greater than zero, divide the amount on line 2 by the amount on line 3. If the amounts on line 2 **and/or** line 3 are zero or less than zero, enter zero. This is the FEDERAL INCOME TAX APPORTIONMENT PERCENTAGE.

**LINE 5.** Multiply the amount of federal income tax attributed to this corporation as shown on line 1 by the FEDERAL INCOME TAX APPORTIONMENT PERCENTAGE as shown on line 4. Enter the result on line 5.

**LINE 6.** If a corporation takes a deduction for federal income tax on its Alabama return and in a later year all or a portion of the tax claimed as a deduction is refunded by the Internal Revenue Service, the taxpayer is required to recognize the refund on its Alabama return to the extent of the benefit received in the prior year.

Cash-basis taxpayers recognize the refund in the year in which it is made by the Internal Revenue Service. Accrual-basis taxpayers recognize the refund in the year in which it accrues. An accrual-basis taxpayer receiving a refund as a result of carrybacks of deductions and/or credits to prior years' federal returns accrues the refund in the year in which the final event which caused the carrybacks occurred.

Multistate taxpayers filing separate federal returns (not requiring allocation of the refund among members of a consolidation) should apportion the refund to Alabama using the following steps:

- (1) If the total refund received or accrued results from a carryback to more than one previous year, identify each of the years to which the carryback is applied and designate the amount attributable to each year.
- (2) Multiply the amount of refund attributable to each year by the same percentage used to apportion income to Alabama on that year's return as last reported or audited.
- (3) Add the results obtained in Step 2 for all years.
- (4) Enter the total on line 6.

A multistate taxpayer filing its federal return as a member of a consolidated group must apportion the refund to each member of the group at the same ratio that the tax deduction being refunded was originally apportioned. See Rule 810-3-35-.01(1)(b)4.

After the amount of refund attributable to the separate corporation has been determined for each year, the four (4) steps provided above for corporations filing separate federal returns may be followed in determining the amount of federal income tax refund to be entered on line 6.

**LINE 7.** Subtract line 6 from line 5. If line 5 is larger than line 6, enter the net federal income tax deduction on line 7 and carry to line 11 of page 1.

If line 6 is larger than line 5, enter the net federal income tax refund on line 7 and carry to line 11 of page 1.

## Instructions for Schedule F

**LINE 1. Alabama Enterprise Zone Act Credit:** To stimulate business and industrial growth in depressed areas of the State, Alabama offers certain tax credit incentives to corporations, partnerships, and proprietorships which locate or expand within a designated enterprise zone. These tax credits are provided under the provisions of §41-23-24, **Code of Alabama 1975**. In order to qualify for these tax credits, a business **must be located within a designated zone** as approved by the Alabama Department of Economic and Community Affairs.

If a credit is earned by a partnership or an S corporation, the credit will be distributed to each partner or shareholder based on the percentage of ownership. The partnership or S corporation should advise each partner of the amount of credit available to each partner or shareholder.

**NOTE:** Section 41-23-30 provides for an income tax exemption. This exemption should be taken on **Line 1**. The taxpayer must have entered into a contract with the Alabama Department of Economic and Community Affairs for such exemption. A taxpayer must compute their income tax exemption under the provisions of their specific contract.

For further information regarding the Alabama Enterprise Zone incentives and the necessary forms to claim the credit, you should contact Alabama Department of Economic and Community Affairs, Planning and Economic Development Division, 401 Adams Avenue, P.O. Box 5690, Montgomery, AL 36130-5690, at (334) 242-5100, or the Alabama Department of Revenue, P.O. Box 327430, Montgomery, AL 36132-7430, at (334) 242-1200.

**Schedule EZ and certificates must be attached to claim the credit. Certificate and computations must be attached to claim exemption.**

**LINE 2. Employer Education Credit:** Sections 40-18-135 through 40-18-139 provide a tax credit to employers who provide approved basic skills education programs to Alabama resident employees. To qualify for the credit, (1) the program must have written approval from the Alabama Department of Education, (2) the employees shall have been continuously employed for at least 16 weeks for at least 24 hours per week, and (3) the employer cannot receive or require reimbursement or any form of remuneration for any cost of education. The credit is 20 percent of the actual costs limited to the employer's income tax liability. A copy of the document of approval along with a detailed schedule (including actual costs incurred, employee employment period) computing the credit should be provided. For further information, contact the Alabama Department of Education, 50 North Ripley Street, 5303 Gordon Persons Building, Montgomery, AL 36130, at (334) 242-8181 or the Alabama Department of Revenue, P.O. Box 327430, Montgomery, AL 36132-7430, at (334) 242-1200.

To help induce industrial and research facilities to locate in Alabama, Act 93-851 allows the Industrial Development Authority to grant certain tax incentives to companies proposing to construct approved projects in this state. See credits on lines 3 and 4.

**LINE 3. Income Tax Credit:** Section 40-18-35 provides a credit for the income tax owed on the income generated by or arising out of the project. The credit cannot exceed the lesser of (1) tax due, or (2) the amount paid pursuant to the financing agreement in the year for which tax is due, correspond-

ing to debt service on the project obligations. This incentive may be reduced or suspended by the Industrial Development Authority if the company fails to achieve the anticipated level of capital investment or employment. Attachments to support credit should include certificate/document of approval, computation of income generated from project, support for amount paid, and computation of credit.

**LINE 4. Tax Increment Fund Payment Credit:** A credit is allowed for any payments into the fund with respect to corporate income tax due, for the year, on income generated by or arising from the project. Such credit cannot exceed the lesser of the amount of income tax due or the amount (exclusive of job development fees) paid into the tax increment funds. See §40-18-35.

The document of approval along with proof of payment(s) into the fund relative to corporate income tax and a detailed schedule computing income generated from the project is required.

For further information relating to credits, contact the Alabama Development Office, 401 Adams Avenue, Montgomery, AL 36130 at (334) 242-0400, or the Alabama Department of Revenue, P.O. Box 327430, Montgomery, AL 36132-7430 at (334) 242-1200.

**LINE 5. Coal Credit:** Section 40-18-220 provides a credit against the Alabama income tax liability to every corporation that is doing business in Alabama as a producer of coal mined in Alabama. The credit is one dollar per ton of the increase in Alabama coal produced for the year over the Alabama coal produced in the prior year. A detailed schedule computing the coal tax credit should be attached to the return when claiming the credit. For further information, contact the Alabama Department of Revenue, P.O. Box 327430, Montgomery, AL 36132-7430 at (334) 242-1200.

**LINE 6. Capital Credit:** Section 40-18-190 and Act No. 2001-503 provide a tax credit against Alabama income tax liability with respect to income generated by or arising out of a project undertaken by certain existing businesses or certain new businesses to be located in the state. The credit allowable is 5 percent of the project capital costs for each of 20 years. See Rule 810-2-7.

A statement of intent to claim the credit must be filed prior to the date the property is placed in service. For further information regarding the capital tax credit and the necessary forms to claim this credit, contact the Alabama Department of Revenue, 4112 Gordon Persons Building, Montgomery, AL 36130, at (334) 242-1175.

Forms AR and K-RCC, if applicable, should be attached to claim the credit. If a credit is claimed, the project number should be entered in the space provided on line 6.

**LINE 7.** Enter the sum of lines 1 through 6. Carry the amount to line 16d, page 1. The total credits and exemption cannot exceed the tax due.

## Instructions for Schedule G

This schedule should be used by taxpayers who have elected to file a consolidated corporate income tax return for Alabama. An annual fee shall be assessed for the privilege of filing an Alabama consolidated return. This fee shall be assessed and collected as an income tax and is due and payable with the return. Mark the appropriate box which indicates the total assets of the Alabama Affiliated Group. (Total assets are those assets indicated on page one of the Federal Form 1120.)

Enter the annual fee on the line provided and also on Page 1, Line 15b.